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Hearings*

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OF THE
EXECUTIVE BRANCH OF THE GOVERNMENT

GENERAL ACCOUNTING
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Washington, D.C., April 3 — The Federal Government, which spends close to \$3 billion a year in peace-time to haul passengers and freight, needs a modern traffic management to eliminate waste, duplication and inefficiency. Recommendations to accomplish this are contained in a report which the Congress will receive tomorrow from the Commission on Organization of the Executive Branch of the Government.

After exploring the transportation problems of military and civilian agencies of the Government, the 12-man, bi-partisan Commission, of which ex-President Herbert Hoover is Chairman, proposes a broad overhauling of traffic procedures to reduce costs and to insure business-like operations.

The Commission also urges that the Government, as the largest shipper of persons and property and as the operator of vast transport facilities of its own, organize and manage its traffic in such a way as to give full recognition to the "importance of an adequate and prosperous transportation system," in accordance with the intent of the Congress.

Traffic management in the Department of Defense, the largest user of transportation in the Government, needs a "new look" in the form of strengthened central direction, according to a Commission task force headed by Perry M. Shoemaker, president of the Lackawanna Railroad.

The Commission, having the results of this task force's exhaustive studies before it, recommends that a Director of Transportation be established by the Secretary of Defense, this official to have "no responsibilities except those pertaining to traffic and transportation." This Director, the Commission says, "should have all necessary authority to direct traffic management activities, passenger and freight, in all the military services, including the coordination and consolidation of functions and facilities."

The Commission emphasizes that it is "mindful of serious administrative problems and especially serious operating problems arising from the organizational relationship between the Department of Defense and the component Services." "The effective solution of many of the immediate difficulties which we are considering in this and other reports relating to Department of Defense activities will depend," it says, "upon finding and implementing the right answer to the underlying organizational problem. We are continuing to study this matter in connection with the work of various task forces concerned" with the department.

In parallel manner the Commission recommends centralization of traffic management functions for all civilian agencies in the General Services Administration, except for the movement of the mail and of security classified goods.

Examples of disregard for costs and of lack of coordination in the movement of personnel and freight are presented, showing widespread dead-heading and hitch-hiking, cross-hauling, back-hauling and other wasteful practices. The Shoemaker task force estimated that almost

8,000,000 passengers were carried in Department of Defense aircraft in the fiscal year ended June 30, 1954, and that about 4,800,000 of this number were classified as hitch-hikers, or on leave status.

There is, the task force reported, "no better illustration of poor traffic management than in the Federal subsistence services." A Munitions Board staff report drew attention to the "handling of the pack of canned salmon from the west coast to Bremerhaven, Germany, via the east coast at almost twice the transportation cost had the same movement gone from the west coast to Bremerhaven by all-water shipment," and "an analysis of the transportation of a seasonal pack of canned peaches showed the same result."

Members of another task force "noted a quantity of sugar being purchased at refineries in New York, shipped to the Army depot at Schenectady, only to have much of it backhauled" and "one particular carload was wanted for redistribution at Fort Totten, New York City, so quickly that it was not even opened and unloaded at Schenectady."

Also questioned are such operations as the flying of ping-pong balls from Westover Field to Berlin and of a substantial quantity of dogfood from the west coast to Okinawa, evoking a task force comment "that certain dogs in Okinawa had available to them dogfood at an overall cost per pound probably setting a world's record."

Another example of "waste of Government funds" was the purchase by one of the military Services of antifreeze in Philadelphia because the price quoted there was one-half cent per unit less than quoted in Oakland, Calif., and the shipment of the antifreeze from Philadelphia to Oakland for overseas shipment from there at a greater net cost.

"An example of unnecessary cross-hauling was found," the Commission says, "in the Veterans Administration which maintains three depots-- Somerville, N.J., Hines, Ill., and Wilmington, Calif. These depots provide storage and issue functions for 235 hospitals, homes and offices. About 70 per cent of the volume of shipments consists of nonperishable food, and 30 per cent medical and general supplies. Nonperishable supplies are purchased from vendors throughout the country, f.o.b. Veterans Administration depots. These supplies are then reshipped as required to its installations located in each of the 48 states; yet the General Services Administration has twelve stores depots located throughout the country, many of which are considerably closer to the Veterans Administration consuming centers."

"It is not to be assumed," the Commission points out, "that such examples are the result of negligence, but as clear evidence that our existing system has not provided for an integration of inventory control, procurement, warehousing and management direction of transportation so as to avoid substantial wastage of transportation and storage dollars. Someone is paying the cost. It is hard to visualize this someone not being the taxpayer."

Attention is drawn by the Hoover Commission to abuses of the 6-cents-a-mile allowance for military personnel travel. The Commission recommends that the mileage allowance "be reduced to a point where there is no profit in it," that the use of the allowance for automobiles be restricted to bona fide car owners and that group troop movements be used wherever practicable.

The Commission finds that the storage and shipment of household goods and private automobiles, provided as "fringe benefits" by the Congress for the armed forces, have become a serious problem, not only in terms of expense but also in the magnitude of the operation. The task force estimated that it costs the Government at least \$250 million a year to move household goods. Storage requires 3,500,000 square feet. From samplings, the task force concluded that almost 1,700,000 separate movements have taken place.

The weight allowed by the armed Services to military and some civilian personnel varies with rank and depends upon whether there is a temporary or permanent change in station. For temporary change, it ranges from 400 pounds for a private to 2,000 pounds for an Army general, and for permanent change from 3,000 to 11,000 pounds.

The Commission grants that the movement of household goods is a necessary service to personnel, but found many opportunities for economy. The task force reported that much crating is unnecessarily elaborate and that higher grades of lumber from distant points have been used where suitable lower grades were available locally at lower prices. The weight of household goods homebound is from 50 to 200 per cent greater than that of those shipped out.

It would be less costly, the task force said, for the Government to provide adequate quarters with basic household effects in overseas installations than the two-way hauls across the oceans to Europe and Asia.

Increasing pressure is being applied by the Air Force for it to handle its own household goods instead of having the Army do it as the

practice has been, the task force reported, adding that this would "lead to additional duplication of facilities and of personnel, and might lead to more expensive movement by air."

The task force reported that "horrible examples" of waste and carelessness could be "multiplied almost to infinity, such as packing one overshoe in a box more costly than the article, crates around junk tricycles, a huge box to house a 10-cent store lamp and another for the paper shade."

The Commission recommends that the Secretary of Defense "explore and effect improved methods to reduce costs of packing, storage and transportation of household goods of military and civilian personnel of the Department of Defense, and that he should place limitations on excessive shipments."

The overseas shipment of private automobiles of service personnel has increased to a rate of 6,000 a month, the Commission was informed by its task force. The sea lift of such automobiles in fiscal 1954 occupied 916,400 measurement tons of shipping space, equal to one third of the capacity of the total nucleus fleet dry cargo traffic between United States and foreign ports. This traffic is authorized by the Congress and the law has been interpreted by the Department of Defense to mean that only Government vessels can be used.

Since the volume cannot be accommodated on a space-available basis, entire ships are devoted to this movement. The Commandant of the Military Sea Transport Service is quoted as follows: ". . . we feel that if the private vehicle lift continues on the same scale as it is now, we will require all those dry cargo ships" for the purpose.

The Commission recommends that the "use of automobiles for official duties in foreign countries be handled by a further use of regulated automobile pools provided by the Government where feasible, and that automobiles for personal use be rented from the pool at a reasonable rate" and that "if a car is desired for personal use abroad by military or civilian personnel, the owner should pay for its transportation to and from his station overseas."

Unnecessary and uneconomic use of Government seagoing vessels in competition with traffic-hungry private facilities, with consequent increases in Government subsidy payments, is described. The Department of Defense was found to be "ignoring the purpose of the Congress to build up a strong privately operated merchant marine for peace and a greater reserve for war."

Although there is a memorandum of agreement between the Secretaries of Defense and Commerce "to the effect that Military Sea Transport Service should perform no services which private industry can render," the Commission says this Service has been enlarged and is "carrying large amounts of commercial-type cargo." Thus, the Commission points out, the Department of Defense "is competing unnecessarily" with the merchant fleet which the Congress is "endeavoring to establish."

"There cannot be," the Commission asserts, "two American merchant marines, one military and one civilian, operating independently and at times in competition with each other. Cooperation from the Secretaries of Defense and Commerce, assisted by American ship operators and the Congress, is needed to end this situation."

The task force reported that more than 85 per cent of all Military Sea Transport Service traffic is "general" or "special" category merchandise which is "very similar to commercial commodities and could be carried in commercial ships." "There appears to be," the Commission points out, "questionable justification for labeling much cargo 'non-susceptible' for private carriers."

Passenger transportation accounts for about one third of "recorded cost" of operating the Military Sea Transport Service, according to the Commission, quoting from a General Accounting Office report. "The task force believes," the Commission says, "that excess capacity of private ships, particularly during 'off' seasons and in peacetime, could be utilized to a greater extent, principally to transport military dependents.

"The private carriers need this traffic. From 1952 to 1954 international commercial sea travel to and from the United States increased slightly from 1,102,000 to 1,164,000 passengers. In the same period, however, the share of United States commercial passenger ships in this traffic declined from 45 to 40 per cent (from 496,000 to 466,000 passengers), and nine out of the 49 privately operated United States ships in operation in 1952 were retired from service."

The task force, referring to "directional imbalance of traffic" handled by the Military Sea Transport Service to and from the

United States, shows an outbound movement of 12,857,000 measurement tons and inbound of 1,965,000 in the fiscal year ended June 30, 1954, or a ratio of more than six to one.

Accurate cost comparisons between Military Sea Transport-owned nucleus fleet and the privately operated United States flag ships are impossible, the task force found. The real cost of using ocean-going nucleus freight ships would be increased greatly, it is pointed out, if several important unrecorded items which are not out-of-pocket costs to Military Sea Transport, but which the taxpayer must pay, were included.

The Commission recommends that the Military Sea Transport Service's reported operating costs should include military pay and allowances, vessel depreciation, interest on investment, Panama Canal and other tolls, insurance costs and, to the extent feasible, the value of use of Government docks and other facilities.

Of the 16,200,000 tons of petroleum carried under the direction of the Military Sea Transport Service in the fiscal year ended June 30, 1954, Government-owned ships hauled 11,900,000 tons and privately-owned ships 4,300,000 tons. The figures for the previous fiscal year were 17,000,000 total, 11,300,000 in Government ships and 5,700,000 in private vessels.

The Commission also gives figures showing that the privately-owned tanker fleet of the United States increased from 6,673,000 tons in 1950 to 6,875,000 tons in 1954, while the fleets of other nations grew in the same period from 19,431,000 to 29,070,000.

The task force is "especially insistent," the Commission says, "that the maintenance of the private fleet is essential" to national defense. "Use of private in place of Government-owned ships," the task force is quoted as saying, "will prove more economical to the taxpayer on the basis of current evidence, particularly if all direct and indirect costs to Government are considered."

To "assist the prospect of reaching congressionally-approved goals," the Commission recommends that Government-owned tankers should be replaced with more modern, privately owned ships, and the Government ships placed in a mothball reserve, "provided the total cost to the Government is not increased after consideration of all factors, including taxes and subsidy recapture."

The Commission also recommends that Department of Defense policy directives be revised to reduce the Military Sea Transport nucleus fleet "in view of the actual services which private industry can render."

The Department of Defense's air transport was also subjected to close scrutiny by the Commission and its task force. This department operates, in addition to a large number of administrative aircraft, "what amounts to at least three airlines." The operating units are Military Air Transport Service (MATs), Fleet Logistic Air Wings (FLOGWINGS), and Air Materiel Command (LOGAIR). Methods of eliminating duplication of services and of reducing competition with commercial

airlines are proposed by the Commission.

The Military Air Transport Service has, the Commission found, "undertaken increasingly large operations," using 536 aircraft for transport activities alone. "Its route patterns," the Commission says, "parallel United States commercial airlines in both domestic and international routes, except in a few instances such as the Arctic and northern Canada." The cost of operations rose from \$390,700,000 in the fiscal year ended June 30, 1952, to \$481,400,000 in the year ended June 30, 1954.

"Bearing upon this question of military carriage of passengers and freight," the Commission asserts, "are the subsidies paid by the Federal Government in part to maintain an adequate civilian reserve of aircraft. While United States domestic trunk airlines are now mostly free of mail subsidy, this is not yet so of the United States international air carriers. The subsidy to them was intended to permit them to attain, among other things, 'such stature in passenger and cargo capacity as to constitute in crisis an adequate logistical air arm of the national defense establishment.'

"These carriers receive mail pay in accordance with the Civil Aeronautics Act of 1938 whether or not full loads of mail are carried. When military passengers or freight are not carried by the commercial airlines but are carried by the military, the United States Government pays the bill twice. To reduce the overall subsidy to the commercial

international airlines, these airlines should be filled to their capacity with military traffic instead of being paid to haul 'imaginary' sacks of mail."

If the United States international airlines could have obtained 25 per cent of the passenger volume and 50 per cent of the military mail shown as moved by Military Air Transport Service alone for the fiscal year ended June 30, 1954, the Commission says, the Government could have reduced the international commercial carriers' subsidy by \$42,900,000, almost 88 per cent of the total amount. Moreover, to the extent that Military Air Transport Service curtailed its operation to conform to this proposal, the Government, according to the Commission, would effect actual out-of-pocket savings through a proportionate reduction in Military Air Transport Service costs, making a double saving.

The fact is noted that while the Hoover Commission's task force investigation was proceeding, the Department of Defense decided to take some steps to this end which it is estimated will result in an \$18 million increase in revenue for the international airlines with a corresponding reduction in their subsidy requirements.

"Due to the availability of planes there has been use of the Service for cargo movement of a type which would be unthinkable in commercial operations and impracticable of accomplishment in wartime," the Commission says. "During July, 1954, about 13,000 pounds of furniture was flown from Bermuda to the United States, and in September 25,000 pounds of cement was flown to Bermuda."

"It was found that an Air Force band was flown about once a month from Westover, Mass., to Bermuda, where no band was available, so that large open-air dances and concerts could be held as morale boosters. The task force did not question the necessity, from a military morale point of view, of sending and returning an Air Force band. However, it would appear that one of the two United States certificated airlines serving Bermuda with a number of daily flights could have readily accommodated the band in its regular scheduled pattern at less cost to the Government. 'Deadheading' would have been avoided and the revenues earned by the airlines would have reduced their subsidy bill."

The service of Fleet Logistic Air Wing was inaugurated by the Navy to "operate air transport essential to naval operations where requirements could not be met by the Military Air Transport Service."

"However," the Commission says, "the task force found that FLOGWINGS does not confine itself to hard-to-reach places. The main route patterns of FLOGWINGS in the Atlantic and Pacific parallel the route patterns of Military Air Transport Service to a precise degree. Alongside these two military airlines, commercial air carriers provide regular scheduled services."

"Complete maintenance and servicing facilities independent of Military Air Transport Service have been set up to support FLOGWINGS operations. Thus, maintenance, overhaul bases, communications facilities and other attendant activities have been duplicated."

"FLOGWINGS now operates 131 transport aircraft. By June 30, 1957, it expects to increase its fleet by 11 per cent in number, and 16 to 20 per cent in capability. In 1954 FLOGWINGS performed 550,000,000 passenger-miles and 39,000,000 cargo and mail ton-miles.

"Our task force, by sampling and otherwise, estimates that during 1954 FLOGWINGS carried at least 195,000 passengers within continental United States who might have been carried on commercial lines and some 325,000 passengers between continental United States and overseas. All of these overseas points were served by both Military Air Transport Service and commercial airlines."

LOGAIR was started by the Air Force to distribute aircraft parts and accessories in critically short supply, or aircraft parts having unit values of \$500 or more. It is presently operated as an all-cargo airline. "Preliminary reports for June, 1954," the Commission asserts, "indicated that the eighth ranking commodity tonnage moved comprised 'blank forms, publications and drawings'. Also moving via LOGAIR during the same month were additional commodity items identified as 'religious goods', 'athletic equipment', 'musical instruments', 'lumber', and 'laundry and dry-cleaning equipment.'"

The task force reported that the existing air-lift capacity now present in Military Air Transport Service leads to the conclusion that the services of LOGAIR are superfluous.

The Commission recommends that the Secretary of Defense "issue a superseding and controlling directive to eliminate the duplicating air transport services within the Department of Defense and merge the entire

operation into Military Air Transport Service, except necessary administrative aircraft."

A further recommendation by the Commission is that the number of airplanes used by administration officials be "drastically reduced."

The Commission also proposes that the "peace-time operations of the integrated Military Air Transport Service be restricted and realistically limited to persons and cargo carefully evaluated as to necessity for military air transportation and, only after commercial carriers have been utilized to the maximum practicable extent, should transportation on Service carriers be authorized."

"The task force finds it necessary," the Commission says, "to comment on a phase of transportation control within the Department of Defense from the viewpoint of what may be considered 'the military mind'." Many military officers were interviewed and, as a "broad generalization," the task force reports that "they are, almost without exception, fine and competent men, carrying out their responsibilities with sincerity and loyalty." But, the task force says, they have been schooled from their early days in each Service that the military commander must have absolute control of his supply line.

"Out of this," the Commission adds, "arises the desire of the military to keep separate Service control of their respective supply lines and separation of control between the three Services. Thus from zeal of tradition and long training we find the military opposed to any infringement of this concept. The maintenance of separate supply lines adds a tremendous dollar cost to the taxpayer. It is contrary to the

principles of integration. It is contrary to the principles of good business management as practiced in industry. These ideas of the necessity of separate service belong to a period when the tonnage of required military supplies was measured in thousands and the items in hundreds of thousands, instead of millions of tons and millions of items as today."

The Commission estimates that potential annual savings from the adoption of its recommendations would exceed \$150 million.

A separate chapter of the Commission's report is devoted to Federal activities in the Panama Canal Zone. Recommendations are directed to greater economy and efficiency. In addition to a study by its task force covering Federal shipping and the Panama Railroad, the Commission had the benefit of a report made by Representative Clarence J. Brown, a member of the Commission, based upon his personal inspection in the Zone.

The Commission recommends that the Congress examine the competing commercial-type enterprises conducted by the Government in the Canal Zone and determine which of these should be eliminated.

In response to an inquiry by the task force as to whether the Panama Railroad "any longer had military justification," an Assistant Secretary of the Army replied that "insofar as military necessity is concerned, the railroad can reasonably be discontinued." The task force so recommended, but the Commission asks that the Congress inquire

into the matter before it authorizes or appropriates in favor of new highway construction.

Representative Chet Holifield, a member of the Commission, presented a dissent and separate statement with respect to a number of the Commission's recommendations. Two other members of the Commission, Attorney General Herbert Brownell, Jr., and Director of the Office of Defense Mobilization Arthur S. Flemming, made separate statements relating to one of the Commission's recommendations.

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